

PELLA COMMUNITY SCHOOL DISTRICT  
INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2006



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**PELLA COMMUNITY SCHOOL DISTRICT**

**OFFICIALS**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education</b> (Before September, 2005 Election)		
Ivan Vos	President	2005
Myron Linn	Vice President	2006
Joe Michels	Board Member	2005
Marv Van Wyk	Board Member	2007
Joan Corbin	Board Member	2007
<b>Board of Education</b> (After September, 2005 Election)		
Ivan Vos	President	2008
Myron Linn	Vice President	2006
Joan Corbin	Board Member	2007
Marv Van Wyk	Board Member	2007
Laurie Fetterman	Board Member	2008
<b>School Officials</b>		
Mark Wittmer	Superintendent	2006
Jon E. Miller	District Secretary/Treasurer	2006
Ron Peeler	Attorney	Indefinite



### Independent Auditor's Report

To the Board of Education  
Pella Community School District  
Pella, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Pella Community School District, Pella, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Pella Community School District at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated November 22, 2006 on our consideration of Pella Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 5 through 14 and 46 through 49 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Pella Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 8, including the accompanying Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Van Maanen & Associates, P.C.*

Van Maanen & Associates, P.C.  
Certified Public Accountants

November 22, 2006

# Management Discussion and Analysis

The Pella Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

## Financial Highlights

- The September, 2004 enrollment count showed an increase of 1.1 students. This resulted in net new money of \$282,622 for 2005-2006, which was an increase of 2.83%.
- General Fund revenues for FY06 were \$14,902,199 compared to \$14,052,119 for FY05. This was an increase of \$850,080, or 6.05%. Unexpected increases came from the Iowa Learning Technology Commission Grant in the amount of \$86,727, a Title I reallocation of \$119,579 and funding for students displaced by Hurricane Katrina in the amount of \$19,500.
- General Fund expenditures for FY06 were \$14,858,571 compared to \$13,928,872 for FY05. This was an increase of \$929,699, or 6.7%. Additional expenditures included a 3.45% total compensation package to staff members, Iowa Learning Technology Commission Grant expenditures in the amount of \$54,410, along with an additional special education instructor, a special education transition coordinator and four additional special education teacher associates required to meet the needs of our students.
- The District's General Fund undesignated, unreserved fund balance for FY06 was \$1,577,301 compared to \$1,583,599 for FY05. This is a decrease of \$6,298.
- The Financial Solvency Ratio is an accepted measure of the district's financial health and is calculated by taking the undesignated, unreserved fund balance divided by the total revenues. This ratio decreased from 11.3% in FY05 to 10.6% in FY06. The District attempts to target a solvency ratio of 10%.
- Interest income continues to improve. General Fund interest income for FY06 was \$168,247 compared to \$73,682 for FY05 and \$19,655 for FY04.
- The District has a cumulative special education positive balance of \$87,168. This is under our allowable carryover of 10%.
- A five year comparison of the District's assessed valuations, tax increment financing and total tax rates are as follows:

Year	Assessed Valuation	Tax Increment Financing	Total Tax Rate - %
2005-2006	\$463,535,140	\$66,071,157	13.52362
2004-2005	458,097,534	65,307,399	13.57896
2003-2004	477,138,783	60,053,193	13.31915
2002-2003	470,594,593	46,139,452	13.15690
2001-2002	442,301,775	31,155,430	13.66552

The assessed valuation for the 2004-2005 school year dropped due to the state imposed agriculture rollback.

## Overview of the Financial Statements

This report consists of three parts: management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *District-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the District-wide statements.
- The statements for *governmental funds* explain how basic services, such as regular and special education, were financed in the short term as well as what remains for future spending.
- The statements for *proprietary funds* offer short-term and long-term financial information about the activities the District operates like businesses, such as food services.
- The statements for *fiduciary funds* provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

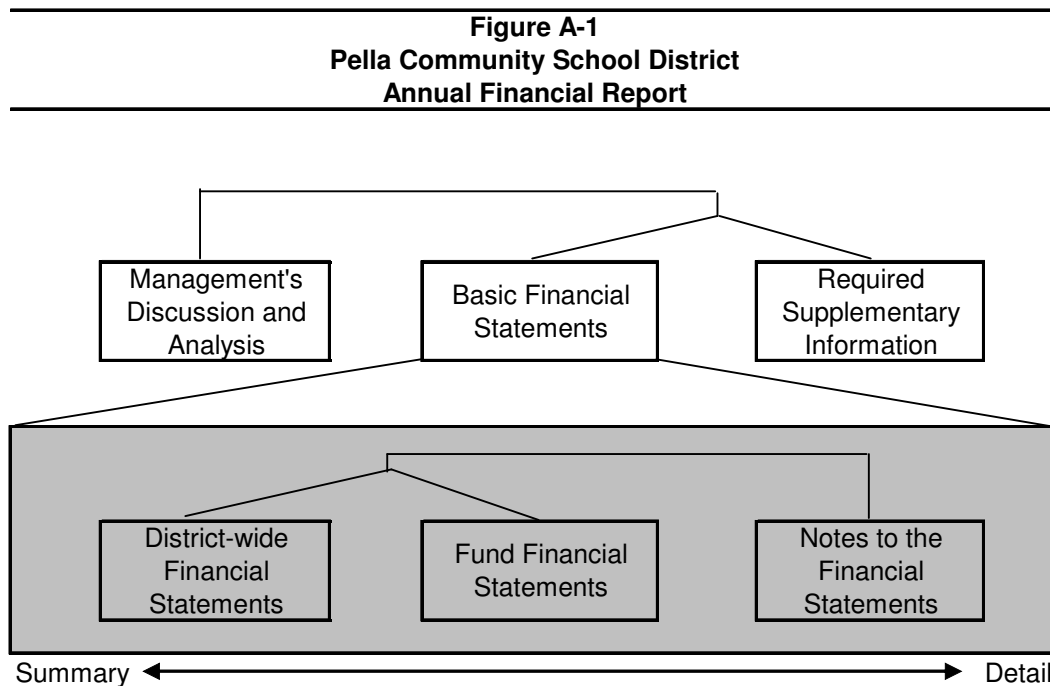




Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the management's discussion and analysis highlights the structure and contents of each of the statements.

**Figure A-2**  
**Major Features of the Government-Wide and Fund Financial Statements**

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• State of revenues, expenses and changes in net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

## District-wide Statements

The District-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when cash is received or paid.

The two District-wide statements report the District's *net assets* and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating, respectively.
- To assess the District's overall health, you need to consider additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the District-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school food service program would be included here.

## Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

*Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the District-wide statements, additional information at the bottom of the governmental fund statements explains the relationship or differences between the two statements. The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

*Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the District-wide statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows.

*Fiduciary funds:* The District is the trustee, or *fiduciary*, for assets that belong to others, such as a scholarship fund. The District accounts for outside donations to specific District schools for specific purposes in this fund. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations.

## Financial Analysis of the District as a Whole

**Net assets** – Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2006 compared to 2005.

Figure A-3 Condensed Statement of Net Assets (expressed in thousands)							
	Governmental Activities		Business type activities		Total		Total Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-2006
Current and other assets	\$ 22,536	24,355	209	211	22,745	24,566	-7.4%
Capital assets	21,113	17,460	146	128	21,259	17,588	20.9%
Total assets	43,649	41,815	355	339	44,004	42,154	4.4%
Long-term liabilities	19,544	20,625	-	-	19,544	20,625	-5.2%
Other liabilities	8,902	7,891	15	21	8,917	7,912	12.7%
Total liabilities	28,446	28,516	15	21	28,461	28,537	-0.3%
Net assets:							
Invested in capital assets, net of related debt	13,119	11,028	146	128	13,265	11,156	18.9%
Restricted	508	664	-	-	508	664	-23.5%
Unrestricted	1,576	1,607	194	190	1,770	1,797	-1.5%
Total net assets	\$ 15,203	13,299	340	318	15,543	13,617	14.1%

The District's combined net assets increased by 14.1% from \$13,617,362 to \$15,543,438. A significant portion of this increase is due to the construction in progress of our new elementary building.

**Changes in net assets** – Figure A-4 shows the changes in net assets for the year ended June 30, 2006.

<b>Figure A-4</b> <b>Changes in Net Assets</b> <b>(expressed in thousands)</b>			
	<b>Govern- mental Activities</b>	<b>Business type Activities</b>	<b>Total School District</b>
Revenues:			
Program revenues:			
Charges for service and sales	\$ 1,187	679	1,866
Operating grants, contributions and restricted interest	1,964	217	2,181
General revenues:			
Property tax	6,979	-	6,979
Local option sales and services tax	1,249	-	1,249
Unrestricted states grants	7,104	-	7,104
Unrestricted investment earnings	715	3	718
Other	219	-	219
Total revenues	<u>19,417</u>	<u>899</u>	<u>20,316</u>
Expenses:			
Program expenses:			
Governmental activities:			
Instruction	10,635	-	10,635
Support services	5,137	-	5,137
Non-instructional programs	73	877	950
Other expenses	1,668	-	1,668
Total expenses	<u>17,513</u>	<u>877</u>	<u>18,390</u>
Change in net assets	<u>\$ 1,904</u>	<u>22</u>	<u>1,926</u>

### Governmental Activities

Property tax and unrestricted state grants account for 72.5 percent of the total governmental activities revenue. The District's expenses primarily relate to instruction and support services which account for 90 percent of the total expenses.

Revenues for governmental activities were \$19,417,112 and expenses were \$17,513,307, resulting in a net asset increase of \$1,903,805.

Figure A-5 presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

<b>Figure A-5</b> <b>Total and Net Cost of Governmental Activities</b> <b>(expressed in thousands)</b>		
	<b>Total Cost of Services</b>	<b>Net Cost of Services</b>
Instruction	\$ 10,635	8,253
Support services	5,137	4,979
Non-instructional programs	73	73
Other expenses	1,668	1,057
Totals	<u>\$ 17,513</u>	<u>14,362</u>

- The cost financed by users of the District's programs was \$1,186,956.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,964,242.
- The net cost of governmental activities was financed with \$6,978,725 in property taxes, \$7,104,077 in state foundation aid, \$1,248,940 in local option sales and services tax, \$715,537 in interest income and \$218,635 in other income.

### **Business Type Activities**

Revenues of the District's business type activities were \$899,016 and expenses were \$876,745. The District's business type activities include Kid's Club, Families First and the School Nutrition Fund. The School Nutrition Fund, however, accounts for 92 percent of the business type activity. Revenues of these activities were comprised of \$603,070 in charges for service, \$217,248 for federal and state reimbursements and investment income of \$3,396. The net assets for business type activities increased by \$22,271.

## **Financial Analysis of the District's Funds**

As previously note, the Pella Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$13,588,831. This compares to \$16,301,584 last year, a decrease of \$2,712,753. This decrease is due to the spending down of our Capital Projects Fund as construction on our new elementary building is now underway.

### **Governmental Fund Highlights**

- The General Fund balance increased from \$1,836,952 to \$1,880,580, an increase of \$43,628.
- The Activity Fund balance increased from \$136,965 to \$197,450. Much of this increase is due to the Band Trip account balance increasing in anticipation of their upcoming trip to Florida to perform at the Citrus Bowl.
- The Management Fund balance increased \$117,853. The District is making a conscious effort to build this fund to the point where our long-term obligation for early retirement is fully funded.
- The Physical Plant & Equipment Levy (PEEL) Fund balance decreased \$127,751, from \$313,453 to \$185,702. This decrease was primarily due to the early purchase of technology hardware for the 2006-2007 school year. The reason this purchase was made early was to give our technology coordinators a better opportunity to install and test the equipment during the summer months.
- The Capital Projects Fund balance decreased \$2,808,710, from \$14,025,089 to \$11,216,379. This decrease is attributed to the construction of our new elementary building, which is now underway. Bonds were sold in the previous year and are now being spent. The School Infrastructure Local Option Sales Tax generated \$1,248,940. We receive money from Jasper, Mahaska and Marion Counties. Interest income was \$542,351.
- The Debt Service Fund increased \$1,742, from \$89,499 to \$91,241. Property taxes were levied to cover the principle and interest payments of our four outstanding bond issues. School Infrastructure Local Option Sales Taxes are used to maintain a debt service levy of \$2.24/\$1,000 or less, which was the amount in place when our most recent bond issue was passed.

## **Proprietary Fund Highlights**

The District's Proprietary Funds include the School Nutrition Fund, Kid's Club and Families First.

- The School Nutrition Fund balance increased \$12,008, from \$304,387 to \$316,395.
- Kid's Club is an after school program operated in our Webster Elementary building. The revenues and expenditures of this program are run through the District's financial accounting records. This fund experienced an increase of \$5,945, from \$4,162 to \$10,107. The operation of this program was transferred to Crossroads of Pella effective June 5, 2006.
- Families First is a community services oriented program. The revenues and expenditures of this program also run through the District's financial accounting records. This program is dependent upon contributions, grants and some user fees for its operation. The balance in this fund increased \$4,318, from \$9,464 to \$13,782.

## **Budgetary Highlights**

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report. Since the District does not adopt a budget for individual funds, budgets for the General Fund and major Special Revenue Funds are not presented in the budgetary comparison on pages 44 and 45.

## **Legal Budgetary Highlights**

The District's total actual receipts were \$1,215,032 more than the total budgeted receipts, a variance of 6.4%. The District's practice is to generally budget revenues conservatively to the low side.

Total expenditures were \$2,969,578 less than budgeted, a variance of 11.8%. The District's practice when budgeting expenditures is to increase the expenditures by a higher than expected percentage, without compromising the integrity of the budget itself. This should usually result in the certified budget being higher than the actual expenditures for a given year.

While total expenditures were well below our budgeted amounts, the functional areas of support services and non-instructional programs were exceeded. Non-instructional programs exceeded the budgeted amount by \$18,980. This is due to more activity in the Families First and Kid's Klub programs than originally anticipated. The support services functional area was exceeded by \$665,811, which is fairly significant. However, expenditures were being switched between instruction and support services in order to meet the reporting requirements of our Certified Annual Report. To be honest, changes were still being made after the fiscal year closed to meet these requirements. These coding changes were very extensive and were revised periodically by the State of Iowa, which resulted in more changes yet. Because of the uncertainty as to which category the expenditures were going to end up in, and because of the timing of all these changes, the budget was not amended this year. In retrospect, it should have been amended as the net difference between instruction and support services still exceeded the budgeted amounts in these two areas by \$233,574, a variance of 1.5%.

## Capital Asset and Debt Administration

### Capital Assets

At June 30, 2006, the District had invested \$21,258,217, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, musical instruments, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$957,365.

<b>Figure A-6</b> <b>Capital Assets, net of Depreciation</b> <b>(expressed in thousands)</b>							
	<b>Governmental Activities</b>		<b>Business Type activities</b>		<b>Total School District</b>		<b>Total Change</b>
	<b>June 30,</b>		<b>June 30,</b>		<b>June 30,</b>		<b>June 30,</b>
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>	<b>2005-2006</b>
Land	\$ 1,692	1,692	-	-	1,692	1,692	0.0%
Construction in progress	3,791	-	-	-	3,791	-	100.0%
Buildings	12,755	13,074	-	-	12,755	13,074	-2.4%
Improvements other than buildings	492	356	-	-	492	356	38.2%
Furniture and equipment	2,382	2,338	146	128	2,528	2,466	2.5%
Totals	\$ 21,112	17,460	146	128	21,258	17,588	20.9%

The original cost of the District's capital assets was \$36,051,021. Governmental funds account for \$35,275,098 with the remaining \$775,923 in the School Nutrition Fund.

The District had construction in progress of \$3,790,895 at the end of FY06. Other major improvements this year included a new parking lot / student drop off area at Jefferson Elementary, a new phone system installation at Jefferson Elementary and Lincoln Elementary, a paint booth at the High School, new batting cages at the baseball/softball diamonds, a significant upgrade to our High School auditorium with new stage curtains, new sound equipment, new lighting system and new video and intercom system and continued technology upgrades at all of our buildings.

### Long-Term Debt

At June 30, 2006, the District had \$19,544,138 in general obligation bonds and other long-term debt. This is a decrease of \$1,081,101 from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

<b>Figure A-7</b> <b>Outstanding Long-Term Obligations</b> <b>(expressed in thousands)</b>			
	<b>June 30,</b>		
	<b>2006</b>	<b>2005</b>	<b>Change</b>
Instruction	\$ 19,210	20,280	-5.3%
Non-instructional programs	334	345	-3.2%
Totals	\$ 19,544	20,625	-5.2%

The District had total outstanding bonded indebtedness at June 30, 2006 of \$17,765,000. This represents four separate bond issues. Two of these issues will be retired in FY09, one in FY13 and the most recent one in FY25. The District also had outstanding revenue bonds of \$1,445,000 at June 30, 2006 that will be retired in FY14.

The District also has a long-term debt obligation for its early retirement plan, which was \$334,138 at June 30, 2006. Retiring employees are currently allowed to receive payments until they reach age 65. This obligation is paid from the District's Management Fund.

### **Factors Bearing on the District's Future**

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- Construction has begun on a new elementary building, Madison Elementary, located at 950 E. University Street. Plans are to occupy this building for the beginning of the 2007-2008 school year. Projected cost of this building is \$10,126,300. This building will house grades PK-3. Lincoln Elementary will continue as a K-3 building, Jefferson Elementary will become a grade 4-6 building, our Middle School will become a 7<sup>th</sup> and 8<sup>th</sup> only and the High School will continue as a 9-12 building. Webster Elementary, the existing building that is being replaced, has been sold to Central College for \$426,000.
- Construction is complete for the additions at our existing High School. Two new special education rooms were added as well as an addition and renovation to the Media Center. The anticipated final cost of this project is \$858,630.
- The District sold a parcel of property located at Peace and Independence Streets to the City of Pella for \$150,000.
- A new Super Wal-Mart is under construction and scheduled to open soon in Pella. We would expect this to have a positive impact on our one-cent local option sales tax.
- The District participated in the Iowa Schools Employee Benefits Association, a self-funded health insurance program, from July 1, 1999 to June 30, 2004. Effective July 1, 2004, ISEBA changed from a self-funded program to a fully-insured program through Wellmark Blue Cross Blue Shield. The District chose to leave ISEBA at this point in time and secured health insurance from another carrier. However, run-out claims from the self-funded program resulted in an assessment to all member schools. Our original assessment was \$150,000. The Board of Education initially agreed to levy \$75,000 cash reserve and absorb the other \$75,000 to meet this obligation. These assessments were then litigated and our final payment was set at \$75,000. The Board then reduced our property tax levy the following year by the same \$75,000. The net result was that the District absorbed the assessment from its cash balance and no property taxes were increased.
- We now know that our September, 2006 enrollment increased by 91.3 students. These students will provide funding for the 2007-2008 school year. We will enjoy a significant increase in new money for 2007-2008 and we are currently planning for increased staffing positions to be supported by these additional funds.
- The District's transportation fleet remains in good shape overall. Each year, either two busses or one bus and a support vehicle are purchased to keep the fleet updated. The General Fund has been the source of revenue for these purchases.
- Pella is home to the corporate headquarters of Pella Corporation and Vermeer Manufacturing. Both companies seem to be performing well and the general economy of Pella continues to be strong. The property tax base remains strong and housing starts have been good.
- The Pella Community School District is very unique in that it does not have a collective bargaining agreement with its teachers. There continues to be a very amicable relationship between management and labor.



- Two major developments for Pella are currently in the planning stages. One is The Point at Red Rock and the other is Earthpark. Earthpark projections estimate 500 one-time construction jobs, 1,000 indirect construction jobs and 150 full-time equivalent permanent jobs. The economic impact for the area is estimated to be 130 million annually. The Point at Red Rock is a proposed development that includes expansion of the current harbor and marina to 400 slips, a water park with a 300+ room hotel, resort hotel and convention center and six, 10 story condominium units. Should these two projects become reality, the increased assessed valuations, increased sales tax receipts and increased jobs will have far reaching implications for both the City of Pella and the Pella Community School District. While the possibilities of these two projects are very exciting, city and school officials remain cautiously optimistic.

### **Contacting the District's Financial Management**

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jon E. Miller, Board Secretary / Business Manager, Pella Community School District, 210 E. University, P.O. Box 468, Pella, Iowa, 50219.

## **Basic Financial Statements**

PELLA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
June 30, 2006

	Governmental Activities	Business Type Activities	Total
<b>Assets</b>			
Cash and cash equivalents			
Revenue bond reserve	\$ 175,000	-	175,000
Other	15,306,078	186,970	15,493,048
Receivables:			
Property tax:			
Delinquent	53,435	-	53,435
Succeeding year	6,523,298	-	6,523,298
Accounts	3,778	-	3,778
Due from other governments	371,984	-	371,984
Inventories	20,698	22,533	43,231
Prepaid expense	82,582	175	82,757
Capital assets, net of accumulated depreciation (note 4)	21,112,581	145,635	21,258,216
<b>Total assets</b>	<b>43,649,434</b>	<b>355,313</b>	<b>44,004,747</b>
<b>Liabilities</b>			
Accounts payable	1,171,840	467	1,172,307
Salaries and benefits payable	1,137,810	14,562	1,152,372
Accrued interest payable	69,194	-	69,194
Deferred revenue:			
Succeeding year property tax	6,523,298	-	6,523,298
Long-term liabilities (note 5):			
Portion due within one year:			
General obligation bonds payable	955,000	-	955,000
Revenue bonds payable	160,000	-	160,000
Early retirement	115,074	-	115,074
Portion due after one year:			
General obligation bonds payable	16,810,000	-	16,810,000
Revenue bonds payable	1,285,000	-	1,285,000
Early retirement	219,064	-	219,064
<b>Total liabilities</b>	<b>28,446,280</b>	<b>15,029</b>	<b>28,461,309</b>
<b>Net assets</b>			
Invested in capital assets, net of related debt	13,118,960	145,635	13,264,595
Restricted for:			
Physical plant and equipment levy	185,702	-	185,702
Other special revenue	197,450	-	197,450
Debt service	22,047	-	22,047
Other	103,280	-	103,280
Unrestricted	1,575,715	194,649	1,770,364
<b>Total net assets</b>	<b>\$ 15,203,154</b>	<b>340,284</b>	<b>15,543,438</b>

See notes to financial statements.

PELLA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
Year Ended June 30, 2006

	Program Revenues		
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest
<b>Functions/Programs</b>			
Governmental activities:			
Instruction:			
Regular instruction	\$ 6,872,522	346,956	655,399
Special instruction	1,816,307	334,458	489,696
Other instruction	1,946,147	495,912	59,892
	10,634,976	1,177,326	1,204,987
Support Service:			
Student services	311,645	-	-
Instructional staff services	757,495	-	-
Administration services	1,284,814	-	-
Operating and maintenance of plant services	1,715,327	9,630	148,581
Transportation services	1,067,778	-	-
	5,137,059	9,630	148,581
Non-instructional programs	73,154	-	-
Other expenditures:			
Facilities acquisition	-	-	-
Long-term debt interest	976,463	-	-
AEA flowthrough	610,764	-	610,674
Depreciation (unallocated)*	80,891	-	-
	1,668,118	-	610,674
Total governmental activities	17,513,307	1,186,956	1,964,242
Business type activities:			
Non-instructional programs:			
Community daycare	25,824	31,769	-
Community services	39,215	43,533	-
Nutrition services	811,706	603,070	217,248
Total business type activities	876,745	678,372	217,248
Total primary government	\$ 18,390,052	1,865,328	2,181,490

Exhibit B

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business Type Activities	Total
(5,870,167)	-	(5,870,167)
(992,153)	-	(992,153)
(1,390,343)	-	(1,390,343)
(8,252,663)	-	(8,252,663)
(311,645)	-	(311,645)
(757,495)	-	(757,495)
(1,284,814)	-	(1,284,814)
(1,557,116)	-	(1,557,116)
(1,067,778)	-	(1,067,778)
(4,978,848)	-	(4,978,848)
(73,154)	-	(73,154)
-	-	-
(976,463)	-	(976,463)
(90)	-	(90)
(80,891)	-	(80,891)
(1,057,444)	-	(1,057,444)
(14,362,109)	-	(14,362,109)
-	5,945	5,945
-	4,318	4,318
-	8,612	8,612
-	18,875	18,875
(14,362,109)	18,875	(14,343,234)

PELLA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
Year Ended June 30, 2006

	Program Revenues		
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest
<b>Totals continued from previous pages</b>	<b>\$ 18,390,052</b>	<b>1,865,328</b>	<b>2,181,490</b>
General Revenues:			
Property tax levied for:			
General purposes			
Debt service			
Capital outlay			
Local option sales and services tax			
Unrestricted state grants			
Unrestricted investment earnings			
Gain on sale of capital assets			
Other			
Gifts to Pella Community School District			
 Total general revenues			
 Change in net assets			
 Net assets beginning of year			
 Net assets end of year			

\* This amount excludes the depreciation that is included in the direct expense of the various programs.

See notes to financial statements.

Exhibit B

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business Type Activities	Total
(14,362,109)	18,875	(14,343,234)
5,280,918	-	5,280,918
1,167,911	-	1,167,911
529,896	-	529,896
1,248,940	-	1,248,940
7,104,077	-	7,104,077
715,537	3,396	718,933
23,490		
195,145	-	195,145
-	-	-
16,265,914	3,396	16,269,310
1,903,805	22,271	1,926,076
13,299,349	318,013	13,617,362
\$ 15,203,154	340,284	15,543,438

PELLA COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2006

	General	Debt Service	Capital Projects	Non-major Special Revenue	Total
<b>Assets</b>					
Cash and pooled investments:					
Revenue bond reserve	\$ -	-	175,000	-	175,000
Other	2,774,037	79,957	11,939,146	512,938	15,306,078
Receivables:					
Property tax:					
Current year delinquent	34,128	11,284	-	8,023	53,435
Succeeding year	4,343,101	1,166,318	-	1,013,879	6,523,298
Accounts	3,778	-	-	-	3,778
Due from other governments	235,681	-	136,303	-	371,984
Inventories	20,698	-	-	-	20,698
Prepaid expenses	82,582	-	-	-	82,582
<b>Total assets</b>	<b>\$ 7,494,005</b>	<b>1,257,559</b>	<b>12,250,449</b>	<b>1,534,840</b>	<b>22,536,853</b>
<b>Liabilities and Fund Balances</b>					
Liabilities:					
Accounts payable	\$ 132,514	-	1,034,070	5,256	1,171,840
Salaries and benefits payable	1,137,810	-	-	-	1,137,810
Deferred revenue:					
Succeeding year property tax	4,343,101	1,166,318	-	1,013,879	6,523,298
Early retirement payable	-	-	-	115,074	115,074
<b>Total liabilities</b>	<b>5,613,425</b>	<b>1,166,318</b>	<b>1,034,070</b>	<b>1,134,209</b>	<b>8,948,022</b>
Fund balances:					
Reserved for:					
Inventories	20,698	-	-	-	20,698
Prepaid expense	82,582	-	-	-	82,582
Debt service	-	91,241	-	-	91,241
Unreserved:					
Designated for special purposes by the Board	200,000	-	-	-	200,000
Undesignated	1,577,300	-	11,216,379	400,631	13,194,310
<b>Total fund balances</b>	<b>1,880,580</b>	<b>91,241</b>	<b>11,216,379</b>	<b>400,631</b>	<b>13,588,831</b>
<b>Total liabilities and fund balances</b>	<b>\$ 7,494,005</b>	<b>1,257,559</b>	<b>12,250,449</b>	<b>1,534,840</b>	<b>22,536,853</b>

See notes to financial statements.



PELLA COMMUNITY SCHOOL DISTRICT  
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
June 30, 2006

**Total fund balances of governmental funds (Exhibit C)** \$ 13,588,831

***Amounts reported for governmental activities in the  
statement of net assets are different because:***

Capital assets used in governmental activities are not financial  
resources and, therefore, are not reported as assets in the  
governmental funds. 21,112,581

Accrued interest payable on long-term liabilities is not due and  
payable in the current period and, therefore, is not reported as a  
liability in the governmental funds. (69,194)

Long-term liabilities, including bonds payable and early  
retirement, are not due and payable in the current period and,  
therefore, are not reported as liabilities in the governmental  
funds. (19,429,064)

**Net assets of governmental activities (Exhibit A)** \$ 15,203,154

See notes to financial statements.

## Exhibit E

PELLA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
Year ended June 30, 2006

	General	Debt Service	Capital Projects	Non-major Special Revenue	Total
Revenues:					
Local sources:					
Local tax	\$ 4,905,695	1,167,911	1,248,940	905,119	8,227,665
Tuition	592,952	-	-	-	592,952
Other	330,911	1,000	542,351	627,375	1,501,637
Intermediate sources	18,082	-	-	-	18,082
State sources	8,530,848	506	-	411	8,531,765
Federal sources	521,521	-	-	-	521,521
Total revenues	14,900,009	1,169,417	1,791,291	1,532,905	19,393,622
Expenditures:					
Current:					
Instruction:					
Regular instruction	6,175,779	-	-	154,101	6,329,880
Special instruction	1,781,523	-	-	-	1,781,523
Other instruction	1,374,282	-	-	548,073	1,922,355
	9,331,584	-	-	702,174	10,033,758
Support services:					
Student services	303,129	-	-	3,000	306,129
Instructional staff services	806,570	-	-	3,000	809,570
Administration services	1,264,309	-	-	379,274	1,643,583
Operation and maintenance of plant services	1,560,489	-	-	115,169	1,675,658
Transportation services	981,726	-	-	46,751	1,028,477
	4,916,223	-	-	547,194	5,463,417
Other expenditures:					
Facilities acquisition	-	-	3,787,426	232,950	4,020,376
Long-term debt:					
Principal	-	1,070,000	-	-	1,070,000
Interest and fiscal charges	-	931,550	-	-	931,550
AEA flowthrough	610,764	-	-	-	610,764
	610,764	2,001,550	3,787,426	232,950	6,632,690
Total expenditures	14,858,571	2,001,550	3,787,426	1,482,318	22,129,865
Excess of revenues over expenditures	41,438	(832,133)	(1,996,135)	50,587	(2,736,243)

Exhibit E

PELLA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
Year ended June 30, 2006

	General	Debt Service	Capital Projects	Non-major Special Revenue	Total
Other financing sources (uses):					
Operating transfers in	-	833,875	21,300	-	855,175
Operating transfers out	-	-	(833,875)	(21,300)	(855,175)
Sale of capital assets	2,190	-	-	21,300	23,490
Total other financing sources	2,190	833,875	(812,575)	-	23,490
Net change in fund balances	43,628	1,742	(2,808,710)	50,587	(2,712,753)
Fund balances beginning of year	1,836,952	89,499	14,025,089	350,044	16,301,584
Fund balances end of year	\$ 1,880,580	91,241	11,216,379	400,631	13,588,831

See notes to financial statements.

PELLA COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 Year ended June 30, 2006

**Net change in fund balances - total governmental funds (Exhibit E)** \$ (2,712,753)

***Amounts reported for governmental activities in the  
 statement of activities are different because:***

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 4,609,779	
Depreciation expense	<u>(957,365)</u>	3,652,414

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets.

1,070,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

(44,913)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Early retirement		<u>(60,943)</u>
------------------	--	-----------------

**Change in net assets of governmental activities (Exhibit B)**

\$ 1,903,805

See notes to financial statements.

PELLA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
June 30, 2006

	<u>Enterprise Funds</u>
<b>Assets</b>	
Cash and investments	\$ 186,970
Inventories	22,533
Prepaid expense	175
Property and equipment:	
Machinery and equipment	775,922
Accumulated depreciation	<u>(630,287)</u>
<b>Total assets</b>	<u>355,313</u>
<b>Liabilities</b>	
Accounts payable	467
Salaries and benefits payable	<u>14,562</u>
Total liabilities	<u>15,029</u>
<b>Net Assets</b>	
Invested in capital assets, net of related debt	145,635
Unrestricted	<u>194,649</u>
<b>Total net assets</b>	<u><u>\$ 340,284</u></u>

See notes to financial statements.

PELLA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
PROPRIETARY FUND  
Year Ended June 30, 2006

	<u>Enterprise Funds</u>
Operating revenue:	
Local sources:	
Operating revenues	<u>\$ 678,372</u>
Operating expenses:	
Non-instructional programs:	
Community service operations:	
Other	65,039
Food service operations:	
Depreciation	20,628
Other	791,078
Total operating expenses	<u>876,745</u>
Operating loss	<u>(198,373)</u>
Non-operating revenue:	
Local sources	3,396
State sources	10,125
Federal sources	207,123
Total non-operating revenue	<u>220,644</u>
Change in net assets	22,271
Net assets beginning of year	<u>318,013</u>
Net assets end of year	<u><u>\$ 340,284</u></u>

See notes to financial statements.

## Exhibit I

PELLA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS - PROPRIETARY FUND TYPE  
Year Ended June 30, 2006

	Enterprise Funds
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 603,070
Cash received from daycare service tuition and fees	75,302
Cash payments to employees for services	(456,186)
Cash payments to suppliers for goods or services	(363,889)
Net cash used in operating activities	<u>(141,703)</u>
Cash flows from non-capital financing activities:	
State grants received	10,125
Federal grants received	165,036
Net cash provided by non-capital financing activities	<u>175,161</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	<u>(37,905)</u>
Cash flows from investing activities:	
Interest on investments	<u>3,396</u>
Net cash used by investing activities	<u>3,396</u>
Net decrease in cash and cash equivalents	(1,051)
Cash and cash equivalents at beginning of year	<u>88,021</u>
Cash and cash equivalents at end of year	<u><u>\$ 86,970</u></u>
<b>Reconciliation of operating loss to net cash used by operating activities:</b>	
Operating loss	\$ (198,373)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Commodities	42,087
Depreciation	20,628
Decrease in inventories	470
Increase in other assets	(175)
Decrease in accounts payable	(678)
Decrease in salaries and benefits payable	(5,662)
Net cash used in operating activities	<u><u>\$ (141,703)</u></u>
<b>Reconciliation of cash and cash equivalents at year end to specific assets included on Combined Balance Sheet:</b>	
Current assets:	
Cash and investments	\$ 186,970
Less items not meeting definition of cash equivalents:	
Certificates of deposit	(100,000)
Cash and cash equivalents at year end	<u><u>\$ 86,970</u></u>

**Non-cash investing, capital and financing activities:**

During the year ended June 30, 2006, the District received federal commodities valued at \$42,087.

See notes to financial statements.

PELLA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
June 30, 2006

	Private Purpose Trust	Expendable Trust
	Scholarship	Special Projects
<b>Assets</b>		
Cash and pooled investments	\$ 51,429	60,033
<b>Total assets</b>	<u>51,429</u>	<u>60,033</u>
<b>Net assets</b>		
Held in trust for scholarships and special projects	51,429	60,033
<b>Total net assets</b>	<u>\$ 51,429</u>	<u>60,033</u>

See notes to financial statements.



PELLA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
Year Ended June 30, 2004

	Private Purpose Trust	Expendable Trust
	Scholarship	Special Projects
Additions:		
Local sources:		
Contributions and donations	\$ -	39,440
Interest	1,350	-
Total revenues	<u>1,350</u>	<u>39,440</u>
Deductions:		
Instruction:		
Services	-	625
Supplies	-	28,417
Other	1,000	250
Total expenditures	<u>1,000</u>	<u>29,292</u>
Change in net assets	350	10,148
Net assets beginning of year	<u>51,079</u>	<u>49,885</u>
Net assets end of year	<u>51,429</u>	<u>\$ 60,033</u>

See notes to financial statements.

PELLA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

**(1) Summary of Significant Accounting Policies**

Pella Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades pre-kindergarten through twelve. The geographic area served includes the City of Pella, Iowa. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

**A. Reporting Entity**

For financial reporting purposes, Pella Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. Pella Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations – The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Marion County Assessor's Conference Board.

**B. Basis of Presentation**

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

PELLA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the Government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other non-major governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District's proprietary funds consist of three Enterprise funds: School Nutrition, Kids Club, and Families First. These funds are used to account for the food service operations, child after-school operations and community-family service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

The Expendable Trust Fund is used to account for assets held by the District for special projects of the District with funds given by individuals, private organizations and other governments.

C. Measurement Focus and Basis of Accounting

The Government-wide proprietary and fiduciary fund financial statements are reported using the "economic resources measurement focus" and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

PELLA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary funds of the District apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents – The cash balances of most District funds are pooled and invested. Investments are stated at fair value.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

# PELLA COMMUNITY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Property Tax Receivable – Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

Due from Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories – Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expense when consumed rather than when purchased or received.

Capital Assets – Capital assets, which include property, furniture, and equipment, are reported in the applicable governmental or business type activities columns in the Government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 1,000
Buildings	1,000
Improvements other than buildings	1,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	500

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

PELLA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Long-term Liabilities – In the Government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets – In the Government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements in the support services and non-instructional services functions exceeded the amounts budgeted.

**(2) Cash and Pooled Investments**

The District's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

PELLA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

**(3) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	\$ 833,875
Capital Projects	Special Revenue:	
	Physical Plant and Equipment Levy	21,300
		<u>\$ 855,175</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

PELLA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

(4) **Capital Assets**

Capital assets activity for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 1,691,900	-	-	1,691,900
Construction in progress	-	3,790,895	-	3,790,895
Total capital assets not being depreciated	1,691,900	3,790,895	-	5,482,795
Capital assets being depreciated:				
Buildings	19,222,365	127,198	-	19,349,563
Improvements other than buildings	739,900	166,440	-	906,340
Furniture and equipment	9,011,154	525,246	-	9,536,400
Total capital assets being depreciated	28,973,419	818,884	-	29,792,303
Less accumulated depreciation for:				
Buildings	6,148,164	445,937	-	6,594,101
Improvements other than buildings	384,086	29,893	-	413,979
Furniture and equipment	6,672,902	481,535	-	7,154,437
Total accumulated depreciation	13,205,152	957,365	-	14,162,517
Total capital assets being depreciated, net	15,768,267	(138,481)	-	15,629,786
Governmental activities capital assets, net	\$ 17,460,167	3,652,414	-	21,112,581
<b>Business type activities:</b>				
Furniture and equipment	\$ 738,018	37,905	-	775,923
Less accumulated depreciation	609,659	20,628	-	630,287
Business type activities capital assets, net	\$ 128,359	17,277	-	145,636
Depreciation expense was charged by the District as follows:				
Governmental activities:				
Instruction:				
Regular				\$ 506,657
Special				38,066
Other				23,792
Support services:				
Student services				5,516
Instructional staff				50,224
Administration				4,808
Operation and maintenance of plant				44,062
Transportation				130,195
Non-instructional programs				73,154
				876,474
Unallocated depreciation				80,891
Total governmental activities depreciation expense				\$ 957,365
Business type activities:				
Food services				\$ 20,628



PELLA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

(5) Long-term Liabilities

Changes in long-term liabilities for the year ended June 30, 2006 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 18,680,000	-	915,000	17,765,000	955,000
Revenue bonds	1,600,000	-	155,000	1,445,000	160,000
Early retirement	345,239	115,074	126,175	334,138	115,074
	<u>\$ 20,625,239</u>	<u>115,074</u>	<u>1,196,175</u>	<u>19,544,138</u>	<u>1,230,074</u>

General Obligation Bonds Payable

Details of the District's June 30, 2006 general obligation bonded indebtedness are as follows:

Bond Issue of June 1, 1997				
Year ending June 30,	Interest Rates	Principal	Interest	Total
2007	5.20%	\$ 400,000	175,157	575,157
2008	5.25%	420,000	154,358	574,358
2009	5.30%	440,000	132,307	572,307
2010	5.38%	465,000	108,988	573,988
2011	5.38%	490,000	83,994	573,994
2012	5.38%	515,000	57,656	572,656
2013	5.50%	545,000	29,975	574,975
Subtotal		<u>3,275,000</u>	<u>742,435</u>	<u>4,017,435</u>

Bond Issue of June 1, 2005				
Year ending June 30,	Interest Rates	Principal	Interest	Total
2007	3.50%	\$ 40,000	580,225	620,225
2008	3.50%	40,000	578,825	618,825
2009	3.50%	50,000	577,425	627,425
2010	4.00%	510,000	575,675	1,085,675
2011	4.00%	535,000	555,275	1,090,275
2012	4.00%	560,000	533,875	1,093,875
2013	4.00%	590,000	511,475	1,101,475
2014	4.00%	680,000	487,875	1,167,875
2015	4.00%	715,000	460,675	1,175,675
2016	4.00%	750,000	432,075	1,182,075
2017	4.50%	775,000	402,075	1,177,075
2018	4.50%	810,000	367,200	1,177,200
2019	4.50%	850,000	330,750	1,180,750
2020	5.00%	885,000	292,500	1,177,500
2021	5.00%	925,000	248,250	1,173,250
2022	5.00%	970,000	202,000	1,172,000
2023	5.00%	1,015,000	153,500	1,168,500
2024	5.00%	1,065,000	102,750	1,167,750
2025	4.50%	1,100,000	49,500	1,149,500
Subtotal		<u>12,865,000</u>	<u>7,441,925</u>	<u>20,306,925</u>

PELLA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

Refunding Bond Issue of November 1, 1997				
Year ending June 30,	Interest Rates	Principal	Interest	Total
2007	4.70%	\$ 225,000	33,615	258,615
2008	4.80%	235,000	23,040	258,040
2009	4.90%	240,000	11,760	251,760
	Subtotal	700,000	68,415	768,415

Refunding Bond Issue of March 1, 1998				
Year ending June 30,	Interest Rates	Principal	Interest	Total
2007	4.40%	\$ 290,000	41,343	331,343
2008	4.45%	310,000	28,583	338,583
2009	4.55%	325,000	14,787	339,787
	Subtotal	925,000	84,713	1,009,713

Total				
Year ending June 30,	Principal	Interest	Total	
2007	\$ 955,000	830,340	1,785,340	
2008	1,005,000	784,806	1,789,806	
2009	1,055,000	736,279	1,791,279	
2010	975,000	684,663	1,659,663	
2011	1,025,000	639,269	1,664,269	
2012	1,075,000	591,531	1,666,531	
2013	1,135,000	541,450	1,676,450	
2014	680,000	487,875	1,167,875	
2015	715,000	460,675	1,175,675	
2016	750,000	432,075	1,182,075	
2017	775,000	402,075	1,177,075	
2018	810,000	367,200	1,177,200	
2019	850,000	330,750	1,180,750	
2020	885,000	292,500	1,177,500	
2021	925,000	248,250	1,173,250	
2022	970,000	202,000	1,172,000	
2023	1,015,000	153,500	1,168,500	
2024	1,065,000	102,750	1,167,750	
2025	1,100,000	49,500	1,149,500	
Total	\$ 17,765,000	8,337,488	26,102,488	

# PELLA COMMUNITY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS June 30, 2006

### Revenue Bonds Payable

Details of the District's June 30, 2006 local option sales and services tax revenue bonded indebtedness are as follows:

Year ending June 30,	Bond Issue of June 1, 1997			
	Interest Rates	Principal	Interest	Total
2007	3.00%	\$ 160,000	51,125	211,125
2008	3.25%	165,000	46,325	211,325
2009	3.50%	170,000	40,963	210,963
2010	3.60%	175,000	35,012	210,012
2011	3.60%	180,000	28,713	208,713
2012	3.60%	190,000	22,232	212,232
2013	3.75%	200,000	15,393	215,393
2014	3.85%	205,000	7,892	212,892
Total		\$ 1,445,000	247,655	1,692,655

The local option sales and services tax revenue bonds were issued for the purpose of defraying a portion of the cost of school infrastructure. The bonds are payable solely from the proceeds of the local option sales and services tax revenues received by the District. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District.

The resolution providing for the issuance of the local option sales and services tax revenue bonds includes the following provisions:

- a) \$175,000 of the proceeds from the issuance of the revenue bonds shall be deposited to the Reserve Account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the Sinking Account. The balance of the proceeds shall be deposited to the Project Account.
- b) All proceeds from the local option sales and services tax shall be placed in a Revenue Account.
- c) Monies in the Revenue Account shall be disbursed to make deposits into a Sinking Account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- d) Any monies remaining in the Revenue Account after the required transfer to the Sinking Account may be transferred to the Project Account to be used for any lawful purpose.

The total amount of interest costs incurred and charged to expense for the fiscal year ended June 30, 2006 was \$929,951.

### **(6) Termination Benefits**

The District offers a voluntary early retirement plan to its employees. Eligible employees must have completed at least fifteen years of full-time service to the District and must have reached the age of fifty-five on or before June 30 in the calendar year in which early retirement commences. The application for early retirement is subject to approval by the Board of Education.

The early retirement incentive for each eligible employee is based on a percentage of the employee's final year's salary. The percentage used for calculation is based on years of service to the District. The percentage varies from 38% for 10 years of service to 57% for 15 or more years of experience.

PELLA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Early retirement benefits are paid monthly over the number of months until the employee turns 65. If the retiree is of an age that these monthly payments would exceed 36 months, the retiree may request payment over 36 months.

At June 30, 2006, the District has obligations to 21 participants with a total liability of \$334,138. Actual early retirement expenditures for the year ended June 30, 2006 totaled \$126,175.

**(7) Pension and Retirement Benefits**

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended 2006, 2005 and 2004. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$567,684, \$540,101, and \$524,044, respectively, equal to the required contributions for each year.

**(8) Risk Management**

Pella Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(9) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$610,764 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**(10) Construction Commitment**

The District has entered into three construction contracts totaling \$11,420,866. As of June 30, 2006 costs of \$3,790,895 had been incurred. The balance of \$7,629,971 remaining at June 30, 2006 will be paid as work progresses.

Project	Contract Amount	Costs Incurred
High School Addition	\$ 872,000	673,239
Elementary School	10,130,300	2,898,407
Street Improvements	418,566	219,249
	<u>\$ 11,420,866</u>	<u>3,790,895</u>

### **Required Supplementary Information**

PELLA COMMUNITY SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES  
IN BALANCES - BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL  
FUNDS AND PROPRIETARY FUND  
REQUIRED SUPPLEMENTARY INFORMATION  
Year Ended June 30, 2006

	Governmental Fund Types- Actual	Proprietary Fund Type- Actual
Revenues:		
Local sources	\$ 10,299,055	681,768
Intermediate sources	18,082	-
State sources	8,489,541	10,125
Federal sources	522,569	165,036
Total revenues	<u>19,329,247</u>	<u>856,929</u>
Expenditures:		
Instruction	9,956,938	-
Support services	5,610,461	-
Noninstructional programs	-	857,980
Other expenditures	5,705,600	-
Total expenditures	<u>21,272,999</u>	<u>857,980</u>
Excess (deficiency) of revenues over (under) expenditures	(1,943,752)	(1,051)
Other financing sources, net	<u>23,490</u>	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures	(1,920,262)	(1,051)
Balances beginning of year	<u>17,401,340</u>	<u>188,021</u>
Balances end of year	<u><u>\$ 15,481,078</u></u>	<u><u>186,970</u></u>

See accompanying independent auditor's report.

Total Actual	Budget	Final to Actual Variance- Positive (Negative)
10,980,823	9,904,558	1,076,265
18,082	15,000	3,082
8,499,666	8,474,086	25,580
687,605	577,500	110,105
20,186,176	18,971,144	1,215,032
9,956,938	10,389,175	432,237
5,610,461	4,944,650	(665,811)
857,980	839,000	(18,980)
5,705,600	8,927,732	3,222,132
22,130,979	25,100,557	2,969,578
(1,944,803)	(6,129,413)	4,184,610
23,490	1,000	22,490
(1,921,313)	(6,128,413)	4,207,100
17,589,361	16,483,748	1,105,613
15,668,048	10,355,335	5,312,713

PELLA COMMUNITY SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE - BUDGET TO GAAP RECONCILIATION  
REQUIRED SUPPLEMENTARY INFORMATION  
Year ended June 30, 2006

	Governmental Fund Types		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	\$ 19,329,247	64,375	19,393,622
Expenditures	21,272,999	856,866	22,129,865
Net	(1,943,752)	(792,491)	(2,736,243)
Other financing sources	23,490	-	23,490
Beginning fund balances	17,401,340	(1,099,756)	16,301,584
Ending fund balances	<u>\$ 15,481,078</u>	<u>(1,892,247)</u>	<u>13,588,831</u>

	Proprietary Fund Type		
	Enterprise		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	\$ 856,929	42,087	899,016
Expenses	857,980	18,765	876,745
Net	(1,051)	23,322	22,271
Beginning net assets	188,021	156,987	318,013
Ending net assets	<u>\$ 186,970</u>	<u>180,309</u>	<u>340,284</u>

See accompanying independent auditor's report.



PELLA COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
Year ended June 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides District disbursements in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the support services and non-instructional services functions.

## **Other Supplementary Information**

PELLA COMMUNITY SCHOOL DISTRICT  
COMBINING BALANCE SHEET  
NON-MAJOR SPECIAL REVENUE FUNDS  
June 30, 2006

	Management	Student Activity	Physical Plant and Equipment Levy	Total
<b>Assets</b>				
Cash and pooled investments	\$ 130,010	198,686	184,242	512,938
Receivables:				
Property tax:				
Current year delinquent	2,903	-	5,120	8,023
Succeeding year	475,000	-	538,879	1,013,879
<b>Total assets</b>	<b>\$ 607,913</b>	<b>198,686</b>	<b>728,241</b>	<b>1,534,840</b>
<b>Liabilities and Fund Equity</b>				
Liabilities:				
Accounts payable	\$ 360	1,236	3,660	5,256
Early retirement	115,074	-	-	115,074
Deferred revenue:				
Succeeding year property tax	475,000	-	538,879	1,013,879
Total liabilities	590,434	1,236	542,539	1,134,209
Fund balances:				
Unreserved, undesignated	17,479	197,450	185,702	400,631
Total fund balances	17,479	197,450	185,702	400,631
<b>Total liabilities and fund equity</b>	<b>\$ 607,913</b>	<b>198,686</b>	<b>728,241</b>	<b>1,534,840</b>

See accompanying independent auditor's report.

PELLA COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - NON-MAJOR SPECIAL REVENUE FUNDS  
 Year Ended June 30, 2006

	Management	Student Activity	Physical Plant and Equipment Levy	Total
Revenues:				
Local sources:				
Local tax:				
Property tax	\$ 369,233	-	522,492	891,725
Utility tax replacement excise tax	5,618	-	6,944	12,562
Mobile home tax	372	-	460	832
	375,223	-	529,896	905,119
Other local sources:				
Interest on investments	-	2,939	1,000	3,939
Student activities	-	495,912	-	495,912
Contributions and donations	-	88,333	-	88,333
Other	12,384	21,374	5,433	39,191
	12,384	608,558	6,433	627,375
	387,607	608,558	536,329	1,532,494
State sources:				
Revenue in lieu of taxes - military credit	181	-	230	411
Total revenues	387,788	608,558	536,559	1,532,905
Expenditures:				
Instruction:				
Regular instruction:				
Salaries	107,580	-	-	107,580
Benefits	30,396	-	-	30,396
Property	-	-	16,125	16,125
	137,976	-	16,125	154,101
Co-curricular instruction:				
Salaries	-	7,034	-	7,034
Benefits	-	574	-	574
Services	-	192,903	-	192,903
Supplies	-	331,748	-	331,748
Property	-	10,812	-	10,812
Other	-	5,002	-	5,002
	-	548,073	-	548,073
Total instruction	137,976	548,073	16,125	702,174
Support Services:				
Student support services:				
Benefits	3,000	-	-	3,000
Instructional staff support services:				
Benefits	3,000	-	-	3,000

PELLA COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - NON-MAJOR SPECIAL REVENUE FUNDS  
 Year Ended June 30, 2006

	Management	Student Activity	Physical Plant and Equipment Levy	Total
Expenditures (continued):				
Support Services (continued):				
General administration:				
Services	1,980	-	-	1,980
Building administration:				
Benefits	3,000	-	-	3,000
Business administration:				
Benefits	3,000	-	-	3,000
Administration technology services:				
Services	-	-	31,320	31,320
Supplies	-	-	65,157	65,157
Property	-	-	274,817	274,817
	-	-	371,294	371,294
Plant operation and maintenance:				
Benefits	23,049	-	-	23,049
Services	48,179	-	-	48,179
Property	-	-	43,941	43,941
	71,228	-	43,941	115,169
Student transportation:				
Benefits	8,655	-	-	8,655
Services	38,096	-	-	38,096
	46,751	-	-	46,751
Total support services	131,959	-	415,235	547,194
Other expenditures:				
Facilities acquisition and construction:				
Services	-	-	232,950	232,950
Total expenditures	269,935	548,073	664,310	1,482,318

## Schedule 2

PELLA COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - NON-MAJOR SPECIAL REVENUE FUNDS  
 Year Ended June 30, 2006

	Management	Student Activity	Physical Plant and Equipment Levy	Total
Excess of revenues over expenditures	117,853	60,485	(127,751)	50,587
Other financing sources (uses):				
Operating transfers out	-	-	(21,300)	(21,300)
Sale of capital assets	-	-	21,300	21,300
Total other financing sources (uses)	-	-	-	-
Excess of revenues and other financing sources over expenditures	117,853	60,485	(127,751)	50,587
Fund balances beginning of year	(100,374)	136,965	313,453	350,044
Fund balances end of year	\$ 17,479	197,450	185,702	400,631

See accompanying independent auditor's report.

PELLA COMMUNITY SCHOOL DISTRICT  
COMBINING STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
June 30, 2006

	Enterprise Funds			
	Community Daycare	Community Services	Nutrition Services	Total
<b>Assets</b>				
Cash and investments	\$ 10,107	13,862	163,001	186,970
Inventories	-	-	22,533	22,533
Prepaid expense	-	-	175	175
Property and equipment:				
Machinery and equipment	-	-	775,922	775,922
Accumulated depreciation	-	-	(630,287)	(630,287)
<b>Total assets</b>	<b>10,107</b>	<b>13,862</b>	<b>331,344</b>	<b>355,313</b>
<b>Liabilities</b>				
Accounts payable	-	80	387	467
Salaries and benefits payable	-	-	14,562	14,562
<b>Total liabilities</b>	<b>-</b>	<b>80</b>	<b>14,949</b>	<b>15,029</b>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	-	-	145,635	145,635
Unrestricted	10,107	13,782	170,760	194,649
<b>Total net assets</b>	<b>\$ 10,107</b>	<b>13,782</b>	<b>316,395</b>	<b>340,284</b>

See accompanying independent auditor's report.

PELLA COMMUNITY SCHOOL DISTRICT  
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN  
FUND NET ASSETS - PROPRIETARY FUNDS  
Year Ended June 30, 2006

	Enterprise Funds			
	Community Daycare	Community Services	Nutrition Services	Total
Operating revenues:				
Local sources:				
Other local sources:				
Community service tuition and fees	\$ 31,769	-	-	31,769
Sale of lunches and breakfasts	-	-	602,395	602,395
Contributions and donations	-	29,364	-	29,364
Miscellaneous	-	14,169	675	14,844
Total operating revenues	31,769	43,533	603,070	678,372
Operating expenses:				
Non-instructional programs:				
Community service operations:				
Salaries	18,317	21,800	-	40,117
Benefits	2,298	2,921	-	5,219
Services	-	3,177	-	3,177
Supplies	5,209	11,317	-	16,526
	25,824	39,215	-	65,039
Food services operations:				
Salaries	-	-	302,730	302,730
Benefits	-	-	102,459	102,459
Services	-	-	17,066	17,066
Supplies	-	-	368,647	368,647
Other	-	-	176	176
Depreciation	-	-	20,628	20,628
	-	-	811,706	811,706
Total operating expenses	25,824	39,215	811,706	876,745
Operating income (loss)	5,945	4,318	(208,636)	(198,373)
Non-operating revenues:				
Interest income	-	-	3,396	3,396
State lunch and breakfast program claims	-	-	10,125	10,125
National School Lunch Program	-	-	152,239	152,239
School Breakfast Program	-	-	12,797	12,797
Food distribution	-	-	42,087	42,087
Total non-operating revenues	-	-	220,644	220,644
Change in net assets	5,945	4,318	12,008	22,271
Net assets beginning of year	4,162	9,464	304,387	318,013
Net assets end of year	\$ 10,107	13,782	316,395	340,284

See accompanying independent auditor's report.



PELLA COMMUNITY SCHOOL DISTRICT  
COMBINING STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
Year Ended June 30, 2006

	Enterprise Funds			
	Community Daycare	Community Services	Nutrition Services	Total
Cash flows from operating activities:				
Cash received from sale of lunches and breakfasts	\$ -	-	603,070	603,070
Cash received from service tuition, fees and other sources	31,769	43,533	-	75,302
Cash payments to employees for services	(24,286)	(24,721)	(407,179)	(456,186)
Cash payments to suppliers for goods or services	(5,209)	(15,050)	(343,630)	(363,889)
Net cash provided (used) by operating activities	2,274	3,762	(147,739)	(141,703)
Cash flows from non-capital financing activities:				
State grants received	-	-	10,125	10,125
Federal grants received	-	-	165,036	165,036
Net cash provided by non-capital financing activities	-	-	175,161	175,161
Cash flows from capital and related financing activities:				
Acquisition of capital assets	-	-	(37,905)	(37,905)
Cash flows from investing activities:				
Interest on investments	-	-	3,396	3,396
Net increase (decrease) in cash and cash equivalents	2,274	3,762	(7,087)	(1,051)
Cash and cash equivalents at beginning of year	7,833	10,100	70,088	88,021
Cash and cash equivalents at end of year	\$ 10,107	13,862	63,001	86,970
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>				
Operating income (loss)	\$ 5,945	4,318	(208,636)	(198,373)
Adjustments to reconcile operating income to net cash provided by operating activities:				
Commodities	-	-	42,087	42,087
Depreciation	-	-	20,628	20,628
Decrease in inventories	-	-	470	470
Increase in prepaid expense	-	-	(175)	(175)
Increase (decrease) in accounts payable	-	(556)	(122)	(678)
(Decrease) in salaries and benefits payable	(3,671)	-	(1,991)	(5,662)
Net cash provided (used) by operating activities	\$ 2,274	3,762	(147,739)	(141,703)

PELLA COMMUNITY SCHOOL DISTRICT  
 COMBINING STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS  
 Year Ended June 30, 2006

Enterprise Funds			
Community Daycare	Community Services	Nutrition Services	Total

**Reconciliation of cash and cash equivalents at  
 year end to specific assets included on Combined  
 Balance Sheet:**

Current assets:

Cash and investments	\$ 10,107	13,862	163,001	186,970
Less items not meeting definition of cash equivalents:				
Certificates of deposit	-	-	(100,000)	(100,000)
Cash and cash equivalents at year end	<u>\$ 10,107</u>	<u>13,862</u>	<u>63,001</u>	<u>86,970</u>

**Non-cash investing, capital and financing activities:**

During the year ended June 30, 2006, the District received federal commodities valued at \$42,087.

See notes to financial statements.

## PELLA COMMUNITY SCHOOL DISTRICT

## SCHEDULE OF CHANGES IN INDIVIDUAL STUDENT ACTIVITY ACCOUNTS

Year ended June 30, 2006

Account	Balance Beginning of Year	Transfers In (Out)	Revenues	Expendi- tures	Balance End of Year
Booster/PTO Concessions	\$ 867	807	53,975	53,141	2,508
HS Drama	620	505	750	1,875	-
HS Speech	983	(305)	13,636	12,728	1,586
HS Debate	141	-	-	75	66
HS Vocal	12,229	300	11,982	19,365	5,146
HS Instr. Music	4,174	3,401	4,973	8,811	3,737
HS Instr. Music Fundraiser	17,486	400	93,034	24,075	86,845
Orchestra	1,958	100	-	887	1,171
Vocal Music Trip Account	5,006	300	9,275	10,419	4,162
Band Boosters	11,638	-	53,893	72,994	(7,463)
Athletics	9,419	4,364	2,290	12,007	4,066
HS Boys Bask.	-	(10,475)	22,717	12,242	-
HS Football	-	(4,300)	23,137	18,837	-
HS Football Jerseys	612	-	7,945	90	8,467
Football Parents	-	-	10,330	9,388	942
HS Boys Soccer	-	55	9,522	9,706	(129)
HS Baseball	(780)	3,036	2,154	4,775	(365)
HS Track	-	2,512	1,969	4,481	-
HS Boys Cross Country	-	541	807	1,348	-
HS Boys Tennis	18	706	466	1,172	18
HS Boys Golf	-	809	789	1,643	(45)
Tennis Club	(20)	-	4,076	3,830	226
HS Wrestling	-	117	3,917	4,034	-
Wrestling Club	86	-	2,731	2,649	168
HS Girls Basketball	-	(4,330)	11,726	7,396	-
HS Volleyball	-	(160)	7,008	6,848	-
Volleyball Club	(17)	-	1,943	1,030	896
HS Girls Soccer	(166)	(514)	6,289	5,995	(386)
HS Softball	(355)	5,297	2,207	6,639	510
HS Girls Track	-	2,035	6,909	8,944	-
HS Girls Cross Country	-	267	390	657	-
HS Girls Tennis	-	2,456	881	3,337	-
HS Girls Golf	-	1,935	-	1,935	-
HS Girls Swimming	-	40	-	40	-
HS Activity Tickets	-	(17,114)	17,114	-	-
HS Miscellaneous Activity	-	336	1,186	1,253	269
Girls Soccer Club	-	26	317	343	-
Art Club	28	(28)	-	-	-
Girls Track Club	-	645	-	-	645
Swimming Club	-	-	870	739	131
Pella Connection Club	1,818	200	554	-	2,572
HS Cheerleaders	700	200	4,277	1,493	3,684
HS Testing	1,484	-	7,852	7,056	2,280
Class of 2005	276	(301)	25	-	-
Class of 2006	(586)	586	-	-	-
Class of 2007	2,567	-	2,726	4,162	1,131

## PELLA COMMUNITY SCHOOL DISTRICT

## SCHEDULE OF CHANGES IN INDIVIDUAL STUDENT ACTIVITY ACCOUNTS

Year ended June 30, 2006

Account	Balance Beginning of Year	Transfers In (Out)	Revenues	Expendi- tures	Balance End of Year
Class of 2008	987	-	1,009	-	1,996
Class of 2009	-	-	1,510	-	1,510
Concessions	607	(607)	-	-	-
Softball Concessions	1,876	-	521	1,057	1,340
Baseball Concessions	193	-	980	26	1,147
Boys Basketball Concessions	4,414	-	6,172	7,426	3,160
Girls Golf Concessions	-	-	1,278	1,217	61
Dinners Served	331	(331)	-	-	-
Dafy Club	281	(281)	-	-	-
Drill Team	5,198	300	21,443	22,555	4,386
FFA	4,199	300	31,357	29,389	6,467
FHA	2,823	-	-	2,764	59
Humanities	425	-	220	-	645
Interest	1,097	(4,500)	3,940	165	372
Technology Student Association	7,231	300	4,448	5,507	6,472
Student Environ. Action	7	(7)	-	-	-
National Honor Society	362	100	-	66	396
Pep Club	256	100	-	-	356
HS PE Heart Club	898	100	5,019	5,067	950
French Club	1,571	-	742	742	1,571
HS Student Council	(226)	200	17,462	16,105	1,331
Publications	14,590	400	47,111	37,833	24,268
Craft Show-Yearbook	6,056	-	-	2,246	3,810
HS Weight Club	5,278	-	250	4,869	659
MS Vocal Music	578	100	2,160	1,956	882
MS Instr. Music	1,628	100	1,068	840	1,956
MS Athletics	-	1,780	-	1,780	-
MS Boys Basketball	-	1,422	1,930	3,352	-
MS Football	-	4,372	2,187	6,559	-
MS Boys Track	-	(472)	1,001	529	-
MS Wrestling	-	(323)	633	310	-
MS Girls Bask	-	1,639	1,098	2,737	-
MS Volleyball	-	1,124	1,471	2,595	-
MS Softball	(170)	1,601	249	1,520	160
MS Girls Track	-	(380)	858	478	-
MS Activity Tickets	-	(1,485)	1,485	-	-
MS Cheerleaders	148	(148)	-	-	-
MS Library/Book Fair	365	-	-	-	365
MS History Day Club	21	-	-	-	21
MS Gifted and Talented	1,291	-	1,790	-	3,081
MS Activity	(247)	148	17,793	17,073	621
MS Home Ec Resale	1,323	-	4,307	3,786	1,844
MS Language Arts Resale	64	-	627	424	267
MS Social Studies Resale	194	-	640	642	192
MS AR Store	69	-	-	-	69
MS Student Council	1,916	-	2,403	1,752	2,567
Elem. Activity	60	(41)	-	-	19

## PELLA COMMUNITY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN INDIVIDUAL STUDENT ACTIVITY ACCOUNTS  
Year ended June 30, 2006

Account	Balance Beginning of Year	Transfers In (Out)	Revenues	Expendi- tures	Balance End of Year
Elem. PTO	35	-	-	-	35
E.L.M.A.	68	40	-	108	-
Lincoln Elementary	-	-	4,861	4,589	272
Webster Elementary	24	-	3,351	3,220	155
Jefferson Elementary	314	-	8,491	8,350	455
Jefferson Recycling	644	-	51	-	695
Totals	\$ 136,965	\$ -	608,558	548,073	197,450

See accompanying independent auditor's report.

PELLA COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION  
ALL GOVERNMENTAL FUND TYPES  
FOR THE LAST FIVE YEARS

		Modified Accrual Basis				
		2006	2005	2004	2003	2002
Revenues:						
Local sources:						
Local tax	\$	8,227,665	7,744,098	7,073,282	6,725,009	6,600,191
Tuition		592,952	601,419	489,605	201,329	216,030
Other		1,501,637	755,499	672,917	1,207,656	996,648
Intermediate sources		18,082	15,000	15,000	18,428	15,309
State sources		8,531,765	7,999,448	7,781,624	7,426,618	7,481,658
Federal sources		521,521	430,845	446,378	344,089	263,894
Total		<u>\$ 19,393,622</u>	<u>17,546,309</u>	<u>16,478,806</u>	<u>15,923,129</u>	<u>15,573,730</u>
Expenditures:						
Instruction:						
Regular instruction	\$	6,329,880	6,275,810	6,321,718	6,025,245	6,176,546
Special instruction		1,781,523	2,183,808	2,062,595	1,859,024	1,706,911
Other instruction		1,922,355	1,207,063	1,285,721	1,483,823	1,279,078
Support services:						
Student services		306,129	325,470	499,204	484,767	444,537
Instructional staff services		809,570	794,337	677,684	628,426	624,769
Administration services		1,643,583	1,284,737	1,136,764	1,103,990	1,041,328
Operation and maintenance of plant services		1,675,658	1,489,740	1,639,083	1,383,316	1,284,975
Transportation services		1,028,477	693,693	699,316	553,744	603,798
Non-instructional programs		-	296	16,086	11,350	7,467
Other expenditures:						
Facilities acquisition		4,020,376	1,760,941	597,119	361,383	354,533
Long-term debt:						
Principal		1,070,000	995,000	805,000	770,000	935,000
Interest and other charges		931,550	386,050	368,831	403,278	450,694
AEA flowthrough		610,764	586,232	592,881	604,874	608,706
Total		<u>\$ 22,129,865</u>	<u>17,983,177</u>	<u>16,702,002</u>	<u>15,673,220</u>	<u>15,518,342</u>

See accompanying independent auditor's report.

## PELLA COMMUNITY SCHOOL DISTRICT

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2006

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Expenditures</u>
Indirect:			
U.S. Department of Agriculture:			
Iowa Department of Education:			
Food Distribution (non-cash)	10.550	FY 06	<u>\$ 42,087</u>
School Nutrition Cluster Programs:			
School Breakfast Program	10.553	FY 06	12,797
National School Lunch Program	10.555	FY 06	<u>152,239</u>
			<u>165,036</u>
U.S. Department of Education:			
Iowa Department of Education:			
Title I Grants to Local Educational Agencies	84.010	FY 06	<u>243,224</u>
Vocational Education - Basic Grants to States	84.048	FY 06	<u>40,403</u>
Safe and Drug-Free Schools and Communities - State Grants	84.186	FY 06	<u>8,235</u>
State Grants for Innovative Programs	84.298	FY 06	<u>6,525</u>
Improving Teacher Quality State Grants	84.367	FY 06	<u>68,963</u>
Grants for State Assessments and Related Activities	84.369	FY 06	<u>12,534</u>
Elementary & Secondary Education Hurricane Relief	84.938	FY 06	<u>19,500</u>
Area Education Agency (AEA 11):			
Special Education - Grants to States	84.027	FY 06	<u>122,137</u>
Total			<u>\$ 728,644</u>

**Basis of Presentation** - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Pella Community School District and is presented in conformity with the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

**Pella Community School District**





Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance  
and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards

To the Board of Education of  
Pella Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the Pella Community School District, Pella, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents and have issued our report thereon dated November 22, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Pella Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-06 is a material weakness.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Pella Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Pella Community School District and other parties to whom the District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Pella Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Van Maanen & Associates, P.C.*

Van Maanen & Associates, P.C.  
Certified Public Accountants

November 22, 2006

**Van Maanen  
& ASSOCIATES, P.C.**

**Certified Public Accountants**

705 Main St.  
Pella, IA 50219  
641-628-3737

Independent Auditor's Report on Compliance with Requirements Applicable  
to Each Major Program and on Internal Control over Compliance  
in Accordance with OMB Circular A-133

To the Board of Education of  
Pella Community School District:

Compliance

We have audited the compliance of Pella Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. Pella Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Pella Community School District's management. Our responsibility is to express an opinion on Pella Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Pella Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Pella Community School District's compliance with those requirements.

In our opinion, Pella Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Pella Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Pella Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Pella Community School District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grant agreements. The reportable condition is described as item III-A-06 in the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe item III-A-06 is a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Pella Community School District and other parties to whom Pella Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

*Van Maanen & Associates, P.C.*

Van Maanen & Associates, P.C.  
Certified Public Accountants

November 22, 2006

PELLA COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2006

**Part I: Summary of the Independent Auditor's Results**

- (a) Unqualified opinions were issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) Reportable conditions in internal control over major programs were disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
  - CFDA Number 84.010 - Title I Grants to Local Educational Agencies
  - Clustered programs:
    - CFDA Number 10.553 - School Breakfast Program
    - CFDA Number 10.555 - National School Lunch Program
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Pella Community School District did not qualify as a low-risk auditee.

**Part II: Findings Related to the Financial Statements:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**REPORTABLE CONDITIONS**

II-A-06 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

PELLA COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year ended June 30, 2006

**Part III: Findings and Questioned Costs for Federal Awards:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**REPORTABLE CONDITIONS:**

**All programs displayed on the Schedule of Expenditures of Federal Awards**

III-A-06 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will consider this.

Conclusion - Response acknowledged.

**Part IV: Other Findings Related to Required Statutory Reporting:**

IV-A-06 Certified Budget - Disbursements for the year ended June 30, 2006, exceeded the amounts budgeted in the support services and non-instructional services functions.

Recommendation – The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded.

Conclusion – Response accepted.

IV-B-06 Questionable Disbursements - No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-C-06 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

PELLA COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2006

IV-D-06 Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Ivan Vos, Vice Pres. of Board Shareholder, Leighton Lumber, Inc.	Lumber	\$147
Jim Emmert, Teacher Owner, Dr. E. Unlimited	T-shirts	\$173

None of the transactions appear to be a conflict of interest and they appear to be in accordance with board policies.

Recommendation - The District may want to consult legal counsel to determine disposition of this matter.

Response - We will consider the need to consult with legal counsel.

Conclusion - Response accepted.

IV-E-06 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.

IV-F-06 Board Minutes - No transactions requiring Board approval which had not been approved by the Board were noted.

IV-G-06 Certified Enrollment - No variances in the basic enrollment data certified to the Iowa Department of Education were noted.

IV-H-06 Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the District's investment policy were noted.

IV-I-06 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.